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ABSTRACT

This lesson plan was developed through "Economics International," an international program to help build economic education infrastructures in the emerging market economies. It provides a lesson description; appropriate age level; economic concepts; content standards and benchmarks; related subject areas; instructional objectives; time required for lesson completion; materials needed; a detailed step-by-step procedure; closure questions; assessment exercises; extension exercises; and four activity sheets. Students read two fables about entrepreneurs who buy grain and turn the grain into clothing or resell the grain and use the proceeds to import clothing. (BT)

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Active Learning Lessons

Clothes From Grain – A Miracle or a Problem?

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ACTIVE LEARNING LESSONS: CLOTHES FROM GRAIN - A MIRACLE OR A PROBLEM?

Author: Joyce Gleason
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Description: Students read two fables about entrepreneurs who buy grain and turn the grain into clothing or resell the grain and use the proceeds to import clothing. Students use the information from the fables to determine why people trade and to analyze the costs and benefits of protectionist trade policies.

Age Level: 14-19 years old

Economic Concepts:

- voluntary exchange
- imports
- exports
- tariffs
- quota

Content Standard 5: Voluntary exchange occurs only when all participating parties expect to gain. This is true for trade among individuals or organizations within a nation and among individuals or organizations in different nations.

Benchmark 1, Grade 12: A nation pays for its imports with its exports.

Benchmark 2, Grade 12: When imports are restricted by public policies, consumers pay higher prices and job opportunities and profits in exporting firms decrease.

Related Subject Areas: language arts (comprehension)

Instructional Objectives: (Students will:)

1. Identify examples of voluntary exchange.
2. Define exports, imports, protectionism, tariffs, quotas.
3. Explain the costs and benefits of trade among individuals or among organizations in different nations.
4. Analyze who gains and who loses with restrictive or protectionist trade policies

Time Required: two class periods

Materials:

- a copy of Activities 1, 2, 3, and 4 for each student
- Extension activity:
  - world map
  - tacks
  - two colors of yarn or string
  - two colors of paper cut into small slips (1" X 2") with a hole punched in each strip
  - Clothes from Grain: A Miracle or a Problem?

Procedure:

1. Explain that this lesson focuses on exchange and international trade.

2. Ask students what voluntary exchange means. Guide them to conclude that voluntary exchange is trade between people who agree to exchange money, goods, services, or resources they possess for money, goods, services, or resources someone else possesses.

3. Tell students that they will read two stories about voluntary exchange.

4. Distribute a copy of Activities 1 and 2 to each student. Have students read the fables and answer the questions at the end.

5. After students have completed the assignment, discuss their answers to the questions as follows.
   a. Who gained and who was harmed by Mrs. Brown's enterprise? *(Gains: Consumers gained because they were able to buy higher-quality clothing and shoes at lower prices. Farmers gained because there was increased demand for their grain. Mrs. Brown and her employees gained. Mrs. Brown earned more profit, and more employees earned wages and salaries. Losses: Workers from apparel and shoe manufacturing businesses located elsewhere lost their jobs. Other clothing and shoe manufacturers had to shut down and/or move into other lines of manufacturing.)*
   b. Why did consumers buy Mrs. Brown's clothes and shoes rather than those made by other manufacturers? *(Consumers decided that Mrs. Brown's clothes and shoes offered better quality at lower prices than other manufacturers.)*
   c. Who benefited and who gained from Mr. D's enterprise? *(Gains: Consumers gained because they were able to buy higher quality clothing and shoes at lower prices. Farmers gained because there was*

increased demand for their grain. Mr. D and his employees gained. Mr. D earned more profit and more employees earned wages and salaries. Losses: Workers from apparel and shoe manufacturing businesses located elsewhere lost their jobs. Other clothing and shoe manufacturers had to shut down and/or move into other lines of manufacturing.)

d. Why did consumers buy Mr. D's clothes and shoes rather than those made by other manufacturers? *(Consumers decided that Mr. D's clothes and shoes offered better quality at lower prices than other manufacturers.)*

e. Where did Mr. D get the foreign money needed to buy clothes produced in other countries? *(He sold grain to foreign producers. He used the revenue to buy foreign produced clothing and shoes which he sold to retail stores in Americana.)*

6. Explain that in the real world the international exchange process is more indirect. Mr. D would exchange his foreign currency revenue for dollars; banks would then have foreign currency available to sell to importers for their dollars. Importers would use the foreign currency to buy goods manufactured in other countries. If a country doesn't earn revenue from selling exports to foreign countries, then its importers would have to borrow foreign currency or exchange other assets for it in order to conduct business. In other words, a country pays for its imports with its exports.

7. Distribute a copy of Activity 3 to each student. Ask students to add notes to the vocabulary list as the lesson continues.

8. Explain that in both fables, voluntary exchange took place. Voluntary exchange occurs when people or organizations trade something of value with other people or organizations in order to benefit. People agree to trade because they expect to benefit.

9. Ask the students for examples of times they engage in voluntary exchange. (when they exchange money, goods, or services for other goods and services, when they work in exchange for wages)

10. Explain that because both sides in a trade expect to benefit, the benefits that result from the trade can be counted as gains from trade. For example, farmers may sell their harvest and use the money they receive to buy clothing, food, entertainment, and so on. They benefit more from the items they purchase than they do from keeping the bushels of grain for themselves. By the same token, the grain buyer needs the grain more than the money he or she pays for the grain. These gains would not have been realized if trade had not occurred.

11. Explain that international trade occurs when people and organizations within nations trade with people and organizations in other nations. Discuss the following.

    a. What are imports? *(goods or services that are produced in one country and sold in another country)*
    b. Give some examples of goods that the United States imports. *(cars, clothing, VCRs, cam-corders, televisions, shoes)*
    c. What are exports? *(goods sold in one country but produced in another country)*
    d. Give some examples of goods that the United States exports. *(cars, computers, soy beans, refrigeration units)*

12. Explain that governments often enact policies to prevent or to limit imports because domestic businesses are producing the same or very similar goods and services. These policies are designed to protect local workers and firms that compete with the imported products. The purpose of the policies is to raise the price of imports or to limit the availability of imports, so consumers will decide to buy more of the locally produced products. These types of policies are called **protectionist policies**.

13. Explain that the two main forms of protection are tariffs and quotas. A **tariff** is a tax on imports. The tax raises the price of the import. This means that consumers will buy less of the import and probably will buy more of the competing domestic (local) product. The price of the domestic good will rise because its demand increases causing the price to rise.

14. Explain that a **quota** is a limit placed on the amount of a product that may be imported. This reduces the supply of foreign products available. Local producers of the product will find that the demand for their product increases. As a result, consumers will pay higher prices for the locally produced product. In addition, consumers will pay higher prices for the imported good because the supply has decreased.

15. Ask the students to review the two fables and consider the following questions.

    a. Describe examples of voluntary exchange in Fables 1 or 2. *(Voluntary exchange: Farmers sold grain to Mrs. Brown. Both Mrs. Brown and the farmers benefited from this exchange. Consumers bought clothes and shoes from Mrs. Brown. Both Mrs. Brown and the consumers benefited from this exchange. Workers traded their skills with Mrs. Brown for payment. Both the workers and Mrs. Brown*

benefited. The farmers sold grain to Mr. D. Both Mr. D and the farmers benefited. Mr. D sold grain to foreign buyers. Both Mr. D and the foreign buyers benefited. Mr. D bought clothing from foreign manufacturers. Both Mr. D. and the foreign manufacturers benefited. Consumers bought clothing from Mr. D. Both Mr. D. and the consumers benefited.)

b. What were Americana's imports and exports? *(Imports: clothing and shoes. Exports: grain)*

c. What policies might be adopted by the Americana Congress to appease those who are hurt by clothing imports? *(The Americana Congress could impose a tariff or a quota on imported clothing.)*

d. What would the results of a tariff or quota be? *(There will be less variety of products and higher prices for consumers; some jobs in the local clothing industries may be protected; some jobs may be lost by importers; foreign producers will buy less Americana grain so farmers' incomes will be reduced)*

e. Why did everyone think Mrs. Brown was a genius when her results were the same as Mr. D's? *(It appeared that Mrs. Brown had new technology that allowed her to produce the clothing and shoes. People were less upset about the technology than they were by the idea of buying goods from foreign countries. It seems easier to find fault with foreign competition than with improved technology. In the second fable the issue of displaced workers becomes political — an "us versus them" issue.)*

f. Suppose an undercover agent discovered that Mrs. Brown was doing the same thing as Mr. D. That is, she was exporting the grain from her warehouse in the
dark of night and unloading shipments full of imported clothing at the other end of her warehouse. Is there really any difference between the situation when everyone
believed the clothing came from grain through a miracle technology than having the imported clothing purchased with the proceeds from the sale of grain? *(No, there really isn't a difference. In both cases, consumers were better off, and some workers were being displaced. The only difference is that in one case it appeared workers were being displaced by technology. In the other case, workers were being displaced by foreign competition.)*

g. Why did farmers want to sell to either Mrs. Brown or Mr. D? *(They valued the payment they received in exchange for the grain more than they valued the grain.)*

h. Why did consumers want to buy clothing from Mrs. Brown or Mr. D instead of clothing made in Americana? *(Consumers felt the Mrs. Brown and Mr. D's clothing was as good or better than Americana clothing and the prices were lower.)*

Closure: (Discuss the following.)

1. What is voluntary exchange? *(when people or businesses agree to trade goods, services, resources or money for other goods, services, or resources)*

2. Why do businesses and individuals trade? *(They trade because they expect to benefit. They benefit because they give up something they value less than the item for which they trade.)*

3. Give an example of a voluntary exchange you made and identify how you and the other participant gained from this trade. *(Answers will vary but might include something such as: I used my allowance to buy a CD at the store. I gained from the trade because listening to the CD brings me a lot of enjoyment. The store gained revenue and as a result profit from the exchange.)*

4. Who gains from international trade? *(Those who gain are the ones who voluntarily exchange goods, services, resources, or money. For example, if you buy a shirt made in Korea from a local department store, you gain because you have a nice piece of clothing to wear. The department store gains in revenue and profit; the Korean manufacturer gains revenue and profit.)*

5. Who might be hurt from international trade? *(Those who are hurt are the producers in industries that compete with imported goods. If consumers buy imports they will buy fewer locally produced products. However, if they didn't buy the imports, then foreigners would not have the funds to buy our exports. So, some workers are hurt by trade, but other workers are helped and consumers are helped by the increased competition that brings lower prices and more variety.)*

6. What is meant by protectionism? *(Protectionism refers to policies, such as tariffs or quotas on imported product, that "protect" local producers of these products. The protection occurs because tariffs and quotas make imports more expensive which makes it easier for local producers to compete.)*

7. What is a tariff? *(a tax on an imported good)*

8. What is a quota? *(a limit on the amount of a foreign product that can be imported.)*

9. What is the effect of protectionist policies? *(The immediate effect is to*

raise the price of the imported item. This reduces competition for locally produced items and, therefore; may protect some local jobs. At the same time, consumers are hurt because the price of the imported product will rise because the tariff or reduced supply. Exporters will eventually be hurt because foreigners will not earn as much revenue from selling imports to the U. S. which would pay for U. S. exports.)

10. Who gains and who loses from free trade? *(Consumers gain from lower prices and more variety. Export industries gain as foreigners earn dollar revenue from selling their products to us and can buy more U. S. Export products. Some workers and businesses may lose revenue and/or jobs as a result of the increased competition.)*

Assessment:

1. Distribute a copy of Activity 4 to each student. Have the students complete the assignment for homework.
   Sample answers: 1) buying lunch, exchanging books with someone in class, working at a part-time job to earn income, spending money on clothes
   2) Examples of imports would be anything made in another country that is purchased in the students' country. Examples of exports would be anything that originates in the students' country and is sold in another country. Imports and exports can be either goods, services, or resources.
   3)Exchange requires that people give up something in order to receive something in return. The same principle applies to international trade. To receive imported goods or services, people must provide something of value in exchange. Either they must provide money to the import producer that they earned by selling goods in the importer's country or they must exchange actual goods or services that the import producer wants before the imports will be sent. (The latter exchange is called barter.)
   4) A tariff protects local manufacturers by raising the price of the import. Higher-priced imports allow the local manufacturer to compete more successfully because local prices are no longer as high relative to the prices of imported goods. This may shift demand to the local product and away from the imports.
   5) An import quota has much the same effect as a tariff. By limiting the number of imports allowed into a country, the price of imports should rise (because the supply has decreased). This makes demand for local goods rise because their prices are not as high relative to imports.
   6) Those who gain from international trade are consumers who benefit from lower prices, better selection, and possibly better quality that comes from increased competition. Producers of exports also gain as the import producers earn revenue that may be spent on exports from the home country. Businesses that compete with imported goods and workers in

these businesses would be hurt.
7) Consumers are hurt by protectionist policies because they pay higher prices, have less selection, and probably get lower quality. Businesses that compete with imported goods and workers in those businesses benefit from protectionist policies.

2. Ask students to develop their own trade fable.

Extension:

1. Have students check the labels on their clothes. As a class, list the countries in which each item was manufactured. Post a world map and have students find these countries on the map and mark them with a tack. Link each tack with a string or piece of yarn attaching a small piece of paper that list the items. Tell students to find out what their country exports to the various countries they have marked. Use another color yarn or string to make a second connection between the students' country and the other countries. On these pieces of string attach a small piece of paper listing the product their country exports.

2. Have students find the major exports and imports for various countries. Use encyclopedias, statistical yearbooks, or Internet sources such as the CIAs *Handbook of International Economic Statistics* or *The World Factbook* at http://www.odci.gov/cia/publications/pubs.html.

Activity 1

Mrs. Brown's Amazing Technicolor Clothes

Mrs. Brown is an entrepreneur who became a hero in Americana by developing a mysterious technology for quickly transforming grain into a wide variety of colorful, stylish, and inexpensive apparel. This included all types of clothing and shoes. Mrs. Brown's clothing sales soon encompassed more than one-third of the entire demand for clothes in Americana. Mrs. Brown's firm bought grain from Americana farmers who delivered truckloads to one end of her enormous manufacturing plant at a major seaport, Oceanattle. Clothing soon emerged from the other end of the enclosed plant. Although some workers in the apparel and shoe- manufacturing industry elsewhere lost their jobs to this new mystery technology, there were few complaints because Mrs. Brown's clothes were high quality and low-priced. Also, farmers experienced increased demand as a result of Mrs. Brown's grain purchases. Less successful clothes manufacturers eventually shifted into other lines of manufacturing, and their workers found jobs in other industries.

Discussion questions

1. Who gained and who was hurt by Mrs. Brown's enterprise?

2. Why did consumers buy Mrs. Brown's clothes rather than those made by the now failing manufacturers?

Activity 2

Mr. D's Problem Venture

Mr. D, like Mrs. Brown, is an Americana entrepreneur who buys grain from Americana's farmers who ship it to his warehouse in Oceanattle. Like Mrs. Brown, he buys the grain, but then resells it in markets in Asia and Eastern Europe. With the proceeds he earns from the grain sales, he buys a wide variety of colorful, stylish clothes and shoes that he imports to Americana and sells to retail stores. These are high-quality, low-priced goods that store customers view as great bargains. As a matter of fact, Americana consumers are so satisfied with Mr. D's clothing that he has captured nearly one-third of Americana's clothing and shoe demand. Americana clothing manufacturers have been driven out of business, and their workers have lost their jobs. These people are very angry to be losing jobs to foreign competition. Manufacturers' organizations and labor unions have demanded that the Americana Congress protect them by placing tariffs on imported shoes and clothing or establishing quotas for imported shoes and clothing. In their lobbying efforts, these organizations describe a "giant sucking sound" representing jobs being swallowed by clothing enterprises abroad. Mr. D is one of the most unpopular men in Americana.

Discussion Questions:

1. Who gained and who was hurt by Mr. D's enterprise?

2. Why did consumers buy Mr. D's products rather than those made in Americana?

Activity 3
Vocabulary

Notes

Definitions

Voluntary Exchange: Voluntary exchange occurs when a person or organization trades something of value with another person or organization in order to benefit. People or organizations trade because it benefits them. For example, people voluntarily exchange work for wages or salaries and they use the income earned to buy food, clothing, and other goods and services.

Gains from Trade: Voluntary exchange occurs because both sides in the trade expect to benefit. The benefits that result from trade can be counted as gains from trade. For example, farmers may sell their harvests to buy cars. They benefit more from the cars than from keeping bushels of grain. The grain buyer benefits more from the grain than from the money exchanged with the farmer. Without trade, these benefits would not have been realized. Any policies, such as tariffs or quotas, that interfere with free trade will reduce these benefits.

Imports: Imports are goods or services that are produced in one country and sold in another country. For example, coats made in Poland and sold in the United States are counted as imports into the U. S. Grain produced in the U. S. and sold in Poland is an import in Poland.

Exports: Exports are goods or services that are sold in one country but produced in another. For example, a Russian traveling on a Japanese airline is buying an export of Japanese travel services. Grain produced in the U. S. and sold in Poland is an export of the United States.

Protectionist policies: These are policies that a country enacts in order to prevent or to limit imports that may compete with domestic goods or services. These policies "protect" local workers and firms producing things that compete with these imports. The purpose of these policies is to raise the price of imports or to limit their availability so that consumers will decide to buy more locally produced products. The two main forms of protectionism are tariffs and

quotas. Protectionism interferes with free trade.

Tariff: A tariff is a tax on imports. When a tariff is imposed, the price of the import increases for local consumers. This means that they will buy fewer imports and probably will buy more local, competing products. Prices for consumers will rise on imports because of the tax. The demand for local products will increase, causing the price of those products to rise as well.

Quota: A quota is a limit placed on the number of imports. When a quota is imposed, the supply of foreign products falls, causing the price of imports to rise. At the same time, the demand for locally produced goods will rise causing the price of those goods to rise.

Activity 4

Assessment

1. Give examples of voluntary exchange in which you have engaged today.

2. Define and give two examples of imports and of exports in your country.

3. Explain how exports pay for imports.

4. Explain how a tariff on imports protects local manufacturers who produce similar items.

5. Explain how an import quota protects local manufacturers who produce similar items.

6. Who gains and who loses from international trade?

7. Who gains and who loses from protectionist policies that restrict trade?

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